IPO WATCH: India IPOs To Swell In 2021 As Supporting Factors Improve - NewsRise

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NewsRise
KOLKATA (Dec 22) -- Initial public offers are set to balloon in India next year as companies try to cash in on the abundant liquidity, greater interest of foreign funds and economic recovery on lifting of lockdown restrictions.

Companies such as Zomato, Paytm, Byju's and Ola may enter the IPO market, said Gaurav Garg, head of research at investment advisor CapitalVia Global Research. These companies need funds to grow and will want to capitalise on the higher profile they've gained during the lockdown, according to analysts.

In the pipeline already are 29 companies whose plans to raise a total of 290.56 billion rupees have been cleared by the Securities and Exchange Board of India, according to PRIME Database. Then there is the much-awaited sale of likely 10% in the Life Insurance Corporation by the Indian government, a deal that analysts expect will result in India's largest IPO ever, although no details have been released yet.

Five more companies are waiting for their IPOs to be approved, including Indigo Paints and Suryoday Small Finance Bank, according to PRIME Database.

Garg sees the next year as "a perfect environment for initial share sales," with markets at pre-Covid levels and the economy doing better than expected.

India's gross domestic product declined 7.5% from a year earlier in July-September after shrinking by a record 23.9% in the previous quarter. Key government officials and brokerages have now raised their GDP estimates for this fiscal and expect it to rebound in the next financial year. The country's central bank expects Asia's third-largest economy to contract 7.5% in this fiscal year, as against 9.5% forecast earlier.

Early investors in startups may seize the opportunity to exit, said Vinit Bolinjkar, head of research at Ventura Securities. It sees Freshworks, Delhivery, Flipkart, PolicyBazaar and BigBasket as possible IPO candidates.

After a slow start, the pace of IPOs started to pick up in September. Since then, 12 companies have raised 154.76 billion rupees through primary offers, taking the total number of IPOs for the year so far to 14.

Shares of Burger King India, Chemcon Speciality Chemicals and Happiest Minds Technologies, which attracted the most subscriptions, nearly doubled in value on their debut.

Biscuit maker Mrs Bector's Food Specialities' recent IPO attracted bids worth over $10 billion. The issue was subscribed 198 times, the highest this year.

Analysts say quality, well-priced issues in sectors such as fintech, digitized consumer firms, and biotechnology will draw the best response.

India's benchmark BSE Sensex and NSE index are up 77% and 76%, respectively, from the lows hit in March and were trading at record highs last week. Despite economic woes following the pandemic, overseas investors have bought $21.94 billion worth of equities for the year to date, 54% higher than last year's total of $14.23 billion.

The S&P BSE IPO Index, which measures the performance of new listings in their first two years' of trading, is up 20% so far this year.

"Oversubscription has been the norm for quality IPOs. The buoyant secondary market will ensure enough interest with investors booking profits and trying their luck with IPOs," said V K Vijayakumar, chief investment strategist at Geojit Financial Services.

Barring unforeseen events, the secondary market, on the back of global liquidity, is expected to continue to do well and lead to increased activities in the primary markets for at least the next three-to-six months, said Pranav Haldea, managing director of PRIME Database.

While liquidity is not expected to dry up in the near term, if the news on the new strain of coronavirus becomes a major issue or other such unforeseen events crop up, there will be a significant erosion in the secondary market and consequently primary market activity may dry up as well, he said.

"FII flows that came in droves can also leave in droves," Haldea said.

Kavita Chacko, a senior economist at CARE Ratings, said risks for the markets include the economic recovery taking longer than expected to materialise, any easing of surplus liquidity in the system and resurgence of the